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# The MANAGEMENT REVIEW

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# The MANAGEMENT REVIEW

JUNE, 1936

## The Annual Allowance for Depreciation

By DONALD HORNE

### II.

THE function of depreciation accounting is to spread the cost of productive facilities as equally as possible against the proceeds of the units of their production. In many cases, there is considerable doubt as to the amount that should be charged against each unit. In such cases of doubt, it is desirable that in determining the amount, a margin of safety should be provided. It must be remembered that the practice of making annual allowances for depreciation is the result of a desire to be conservative and sound in business methods and this attempt cannot be completely successful unless the allowances are certainly adequate.

When the management believes that it is erring on the side of over-conservatism—that its allowances are probably in excess of the amounts actually necessary—it should nevertheless maintain them, and make no downward adjustments until experience indicates that they should be made. It is much easier to make adjustments in the annual depreciation allowance downward than upward. A downward adjustment lowers estimated cost, and renders possible either lower prices or greater profit.

The difference that will be found between minimum reasonable allowances and those that are conservatively but safely liberal are usually relatively unimportant. That is, they are not enough to have a severely discouraging effect upon the market for commodities, or upon rates of public utilities, or, if they have to be absorbed in the profits of the enterprise, to render investment

This month's Current Comment is adapted from Mr. Sloan's address before the Los Angeles Chamber of Commerce on May 22, 1936.

The object of the publications of the American Management Association is to place before the members ideas which it is hoped may prove interesting and informative, but the Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

in it unattractive. After all, depreciation is usually a relatively small item in the price of a commodity. It is generally small in comparison with the cost of raw material and labor. If the depreciation charge were varied as much as 100 per cent, the item would still be comparatively insignificant.

Then, one may well ask, why is it important to adopt a safely liberal policy? The answer is, because there is a small margin between the selling price of an article and the proportionate cost of its raw material and the labor expended on it. Out of this narrow margin must be taken not only the profit for the enterprise, but also a reasonable amount to insure future profitable operation. This narrow margin may not exceed 15 per cent of the sales price, and therefore, an increased allowance for depreciation would have a relatively slight effect on the sales price, but a most important effect in providing for reimbursement of a substantial cost of production. Under an adequate system of gathering and recording pertinent data, the margin between minimum and liberal allowances can be reduced to small proportions.

In considering what is an adequate allowance for depreciation, there are other factors besides the fiscal policy for the particular business. There is the interest of the Treasury Department, in the administration of the income tax, and, in the case of public utilities, the interest of the public manifested through the Interstate Commerce Commission and various public service commissions.

The interest of the Treasury Department is confined to prevention of tax evasion. It is restricted to the ascertainment of taxable net income, and does not affect the policy of the companies as to ascertainment of income for other purposes, as to which a different method may be proper. Nevertheless, the methods prescribed by the Treasury Department have great influence on general practices, first, because taxable net income is supposed to coincide with true net income and secondly, because the statutory provision for deduction of a reasonable allowance for "wear, tear, and exhaustion, including obsolescence," was one of the earliest official recognitions of the depreciation allowances to have universal application throughout the United States.

As long as income tax rates are not appreciably changed, the interest of the Treasury Department is theoretically academic because, in the long run, it would collect the same amount of tax, whatever depreciation rate is used. Its present campaign for lower rates is based upon the need for immediate revenue, and, it is believed, is doing more harm to the country than the amount of revenue involved. As above shown, however, as long as a rate of depreciation satisfactory to the Treasury Department is used for income tax purposes, it has no right to dictate policy to the management of business enterprises on this subject.

The interest of the public, as reflected by public service commission activities, presents a different situation. This interest applies only to public



utility companies, whose problems are somewhat different from those of industrial enterprises. The amount of the annual depreciation allowance is an important factor in rate making, and a variation either way from the right amount is certain to affect some consumers favorably at the expense of others; that is, present consumers, at the expense of future consumers, or future consumers at the expense of present consumers.

It is to the interest of all consumers, present and future, that the businesses of public utilities continue at maximum efficiency, and in pace with modern developments and improvements. While it is the duty of public service commissions to prevent excessive rates and charges by public utilities, they necessarily have discretion to leave to the management adequate latitude for a conservatively liberal treatment of the problem of the annual depreciation allowance.

We have defined depreciation as the apportionment of the cost of productive facilities to the units of their product. We must consider to what costs the rule of apportionment applies. It is usually applied to property capable of sustaining deterioration in value through wear and tear, as the term itself indicates, but it is believed that the field of application should be much broader than this.

The income tax statutes, in making provision for the annual allowance, do not use the word "depreciation," but refer, instead, to "exhaustion, wear and tear, including obsolescence." The Supreme Court, as above quoted, defines *depreciation* as the loss due to all the factors causing the ultimate retirement of the property, including wear and tear, decay, inadequacy and obsolescence. The inclusion of exhaustion and obsolescence as factors have given the term depreciation a much more general connotation than probably was intended when first used.

We suggest that the correct business practice is that of apportioning any investment or expenditure as nearly as may be proportionably to the units of product for which it was expended. Under this plan, it would embrace the cost of a contract, a patent, a franchise, a loan, as well as land, buildings, equipment and machinery.

Productive assets are sometimes classified as those having a permanent useful life, those having a life shorter than the accounting period, and those having a limited period of useful life longer than one year. The term "depreciation" is usually applied only to the third class mentioned, since the cost of short-lived assets is ordinarily charged at once to operating expense, and the cost of so-called permanent assets is generally carried indefinitely in capital account at cost.

We are trying to analyze the subject independently, and, if possible, find impartially the underlying principles with which sound business practice

should conform, and we therefore disregard, for this purpose, present business and accounting practices and even court decisions indicating conclusions arrived at from a different approach.

It cannot be denied that the cost of land to be used in a productive enterprise is a part of the cost of the product. There is no guarantee that land used, for instance, as a factory site, will continue to have an unimpaired use value or a market value equal to its cost. The use value of land may be affected by extraneous influences, such as changes in the center of population, developments in transportation facilities, unfavorable local legislation, and other occurrences which may render desirable the moving of the plant. In such case, the management might be glad if the cost of the land had been recovered out of prices charged for the product, as had been the cost of machines, buildings and other facilities.

It must be remembered that the asset account is not necessarily reduced when the recovery through the depreciation allowance is equal to the cost of any asset. The asset continues to be carried at cost until actual retirement, but there is, in the depreciation reserve, an offsetting item.

Exclusion of any part of the cost of land from the annual depreciation allowance is based upon the unjustified assumption that neither its value in use nor its fair market value varies from its original cost. We can think of instances where it would lose its entire value of both kinds, as where restoration of land to marketable condition would require wrecking an abandoned building at a cost which would equal any price which could be obtained for the land. But in case land retains marketable value after its cost has been fully accounted for through depreciation allowances, the sale price would represent profit, and the enterprise would show a better financial condition as a result of the practice.

Depreciation applies to items whose service life is less than the accounting period. In order accurately to price the product, the cost of all assets used in its production must be apportioned to each item of product. While the condition of consumer demand may not permit scientific pricing in accordance with costs properly allocated, it is important that the allocation be made in order that the management may be informed as to the progress or retrogression of the business, and strive toward the correct objective. But although the principles of depreciation apply to short-lived assets, in practice the allocation is treated as a separate branch of cost accounting, and the depreciation allowance is confined to provisions with respect to the cost of assets having a limited service life of more than one year. In other words, depreciation accounting is confined to allocation of costs by years.

For this reason, the straight line method on the basis of time is generally approved. It may not, in some cases, as accurately measure the propor-

tion of cost assignable to each unit of production as a method based on use or production might, and in special cases, one or the other of these latter methods, if consistently adhered to, may be preferable. We believe, however, that the straight line time method should be considered as the standard, and that no other method should be used unless clearly justified by unusual conditions.

The method of "observed" depreciation is clearly inapplicable. In the first place, it is impossible to determine the effect of obsolescence by observation of the asset. In the second place, physical deterioration observed may be corrected by repair. It is important to bear in mind that the purpose of the allowance is not to measure deterioration, but to distribute cost to product. The actual condition of the asset has little to do with the allocation of its cost to its product.

It is practically impossible to estimate from available experience the amount which should be charged against each year's product in order to insure against the time when the productive asset will become a total loss, except in the case of certain intangible assets, such as patents, lease-holds, contracts and franchises, where the annual allowance is merely a matter of amortization, the term being fixed by law or agreement. The prudent thing to do, therefore, is to make generous allowance, erring on the side of too much rather than too little. Here is one instance where excessive generosity is conservatism.

There is possible, however, a check by which the management may be able to correct a practice of too liberal allowance. Given the fact that the enterprise is a going concern, with a known rate of growth, it is possible to determine what percentage of its gross assets should be represented by depreciation reserve. This may be done mathematically and with approximate accuracy. Whenever the depreciation reserve is found to be too high, the annual composite rate can be reduced, and the reduction can be allocated to various assets, if desired. If too low, the rate can be increased. The adjustments, after a period of trial and error, would tend to become very slight.

The factor most difficult to determine is that of extraordinary or unpredictable obsolescence. Economic history must furnish some practical data on this subject. Few companies are likely to have sufficient data with respect to their own transactions to guide them in this respect, but a study of industrial trends, or economic progress throughout the industrial revolution (which is still revolving and at an accelerating pace) would be of great aid.

There is need for an exhaustive study, by an impartial body of recognized character and ability, of the factors which should form the basis of the annual depreciation allowance and the depreciation reserve. The Institute for Economic Research, under the leadership of its distinguished President, Prof.

Richard T. Ely, is proposing to undertake this enormous task. The late Col. Malcolm C. Rorty (from whose outline the above has been written) became interested in this project just before his death and planned to find time to devote his personal attention to it. He considered it of major importance. He remarked to the writer that the correct treatment of the annual depreciation allowance and the depreciation reserve was the primary problem of the day.



**Mr. Horne is a member of the New York Bar, and Counsel for the Institute for Economic Research. He formerly was Special Attorney for the Bureau of Internal Revenue, and is a specialist in federal taxation.**

The accompanying article was written from an outline by the late Colonel Malcolm C. Rorty who, shortly before his death, consulted with Mr. Horne on its preparation. The article is written in two parts; the second part to appear in the June issue of *The Management Review*.



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# *Current Comment*

## **FREE COMPETITION**

**I**T MUST be clear that competition offers the only solution to the perfectly natural desire and right of more people to have more things, and especially the only opportunity to afford the full employment of our workers in the production of wealth.

If the exchange of labor for goods and services, or one form of goods or services for another, can take place only on the basis of arbitrary terms set up by the seller, irrespective of the value to the buyer, and if no one will work at less than a stated wage, irrespective of the value of that wage in terms of goods and services, then we might just as well recognize and accept permanent depression, permanent unemployment, a continuous dole, and make the best of it.

I do not hesitate to say that if America takes the road marked "stabilization," bureaucracy will be the first step, regimentation of industry the second, and the end of the road, however long it may be, will be State socialism. That is inescapable. We do not need to look very far afield to see this very process in evolution.

I urge continuing more aggressively if possible to move for a constant lowering of cost and prices. I am sure that an intelligent industry will not defeat that objective by reducing the real wages of the worker, but will reach it by continually improving its producing technique.

Industry should accept competition as the best instrumentality for regulating industry's intricate relationships. While in-

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dustry might well adopt reasonable standards of conduct, such as fair trade practices, a minimum wage and the like, it must be definitely recognized that when such policies tend to become monopolistic in character or when they tend to limit uneconomically the competitive urge, and let us admit frankly that this is too apt to be their real objective, then we pass from competition, and regulation by government bureaucracy becomes inevitable.

Industry should strive for a more economic balance of national income through policies affecting the relationships of the wage scale, the hours of employment, the price level and the profits resulting from industry's productivity.

Stabilization would eventually eliminate the American system. Certain groups, not only inside of industry but outside, apparently believe in this philosophy. Some labor spokesmen assume this philosophy by demands for a price for labor beyond what the buyer can afford to pay. Some of our railroads believe in it in so far as they believe it sounder to carry fewer passengers at a higher rate than more at a reduced rate.

Too many think that when industry moves, or urges the desirability of lower cost of goods and services so that it may spread the benefit of those goods and services over a greater number, it means lower wages. That certainly would be an unintelligent and an undesirable approach to the objective. It would defeat its own purpose.

One thing is perfectly evident today. Those who have followed the practice of lowering the cost of goods and services are the ones who show the smallest amount of unemployment and have therefore made the greatest progress toward recovery. On the other hand, those who have followed, to some extent, the principle of stabilization have progressed the least and are, today, still the most depressed.

ALFRED P. SLOAN, JR.

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## THE MANAGEMENT INDEX\*

### Abstracts and News Items

#### GENERAL MANAGEMENT

##### The Other Side of Reciprocity

Reciprocity is becoming a racket. When companies are not satisfied with putting the "bee" on the original supplier, but go back of the transaction and get after the chap who sold the raw materials and parts to the supplier, then the "buzzing" gets a bit too thick.

When a competitor snatches business right out from under a salesman's talk by means of reciprocal buying, the advantage gained may be offset by the revenge the salesman who never forgets can wreak over the period of a lifetime. Another factor is the demoralizing effect reciprocity has on a sales force. Salesmen who become imbued with the reciprocity idea forget how to sell. That is one side of the reciprocity mirage.

The two parties to the back-scratching, themselves, may not get an equal deal, and if it is equal, it may be equally bad. It is hard for anyone who becomes entangled in a "reciprocity deal" to avoid striving to get some edge on the man who used a squeeze play on him. It may be withholding a discount, shipping merchandise not quite what it ought to be, or the more common plan of getting a longer price; but by and large reciprocity buying usually comes expensive. By Cameron McPherson. *American Business*, May, 1936, p. 24:2.

##### The Paradox of Management

Management is a particular talent of a few men but it is to these few men that the nation largely owes its debt for the

American standard. Management is the vital factor in economic progress. It has never appeared in such a paradoxical position as it does today. The nation goads it to further efforts to reduce unemployment; politics piles mountain upon mountain of taxes upon it; demagogues create prejudice among the multitude to embarrass it.

Mr. Verity, one of the able leaders of management for the last generation, points out that with all the talk of developing "the more abundant life" there has been no consideration of developing those in whose hands the key to it might be found. Management in America amounts to a small army of 600,000 men. It has no political standing and no solid front with which to counter-attack. Yet in its hands lies almost the only hope for economic and cultural progress.

Mr. Verity asks that management by reason of proved ability, loyalty, courage and resourcefulness be recognized, respected and given every proper chance to function in the interest of national betterment. By George M. Verity. *Commerce*, May, 1936, p. 13:2.

##### The Coming Boom in Real Estate—And What To Do About It

The author asserts that we have already entered the first stages of an expanding cycle in real estate which will last until the mid-forties. While he contends that a more gradual recovery over a long period of years would lead to a more lasting pros-

\* For publishers' addresses or information regarding articles or books, apply to AMA headquarters.

perity, he asserts that the forthcoming rise will be a rapid one, leading to an acute shortage in both housing facilities and skilled labor, culminating in hectic commercial and residential building early in the next decade. The vast cyclical recovery he foresees will be accompanied by a sharp rise in rents and real estate prices.

The first part of the book deals with the elemental forces now at work producing a boom. The latter sections are devoted to answering specific questions of individuals and organizations. You will be told what to do about it if you now rent an apartment or house, if you own a home with a mortgage, if you are planning to buy or build, if you rent a store or office, if you own a store or business property, if you own an apartment house, if you own vacant or farm land, if you own mortgage or real estate bonds, or if you are interested in real estate as an investment, as a speculation, as a career, or vocation. By Roy Wenzlick. *Simon and Schuster*, New York, 1936. 48 pages.

#### What Will Social Security Mean to You?

Included in this pamphlet are the subjects: What will "Social Security" Mean to You? Social Security vs. Your Insurance and Annuity Plans; The Social Security Gold Mine or Gold Brick; Unemployment Insurance; From the Business Point of View; and Constitutionality of the Social Security Act.

The authors in the preface state: "We believe that the framers of the Act, in attempting to avoid conflict with constitutional restrictions, have created an instrument which is particularly susceptible to abuse and injustice.

"This critical attitude toward the existing measure does not imply that it is neither possible nor advisable for society to make systematic provision by means of social insurance for the needs of those temporarily unemployed or those who have passed the age of productivity. A system of social insurance, however, may involve grave social and political dangers. Before

becoming law, such a system should have more careful study than has apparently been accorded the present Act. Moreover, it seems probable that only a constitutional amendment could reconcile a sound social security measure with the basic law of the nation." By Bion H. Francis and Donald G. Ferguson. *American Institute for Economic Research*, 1936. 64 pages.

#### Mental Hygiene for Economists

Of such things as markets, prices, loadings, depreciation, and surpluses, economists have more information than they can use; but of human nature, which is always pushing the statistics and the laws of supply and demand out of line, this ponderous profession has all too little information. Unwittingly economists have overlooked a large fund of knowledge which modern psychotherapy has made available. For economists there are two field in which this new knowledge of the unconscious mind can be of particular use—politics, and the business cycle.

Now economists have their unconscious emotional processes like everyone else. A more intimate emotional reconditioning, such as psychiatry can provide, through analysis, consultation, or mental hygiene, would be of value to many individual economists. Economists must stand in the heat of group emotions as psychiatrists stand in the fire of individual emotion.

No economist can hope to take a sound, objective attitude toward social problems if his vision is distorted by emotional conflicts of his own. If economics is to become, or remain, a science of human behavior, economists must be well educated emotionally. By Harold M. Fleming. *Scribner's Magazine*, May, 1936, p. 306:3.

#### Gambling Booms and Business Slumps

Business men from New England to California report amazing losses as a result of commercialized gambling at race tracks and in horse parlors. One bank lost \$1,000,000 in savings deposits when racing began; in one city department store sales



fell off 36 per cent, and in industrial centers factory production slumped. The sensational record of results of the boom in commercial gambling is continued in this

article, the second chapter of "Gambling—A Knife in the Back of Business." By Howard McLellan. *American Business*, May, 1936, p. 27:4.

## FINANCIAL MANAGEMENT

### Poor Man's Bank

Regardless of what Uncle Sam practices, he preaches thrift to his nieces and nephews. He is fostering a rapidly growing system of credit unions, or baby banks, throughout the country through which individuals are making progress toward wiping out their private debts.

Credit unions, in the first fiscal year under the plan of chartering by the federal government have accounted for savings of more than \$2,600,000.

They are growing at the rate of 100 a month under federal sponsorship. In addition the rate is probably that high under charters granted in the various states where they have been legalized.

Any group of seven or more persons with a "community of interest" may, under an act of Congress, be chartered by the government. "Community of interest" means that the persons must work in the same office or plant, must live in the same neighborhood, belong to the same church or lodge or otherwise have a bond of association.

Steel mill workers, department store employees, occupants of a building, members of a church parish or society have organized credit unions all over the country. In the Pittsburgh district alone, there are more than 100 such organizations, the largest having some 1,400 members. On application such groups receive a charter from the Federal Credit Administration, Credit Union section, at Washington to do a regular business in promoting savings and making productive loans. The participants—chauffeurs, salesmen, elevator operators, etc.—receive instructions on how to keep the simple system of books, how to organize committees, and the kind of loans to make.

Silly as all this may seem, there never has been a failure of one of these cooperative banks according to the sponsors—even during the depression when the professionally trained bankers were running into rough financial seas.

There is no particular secret to credit union operation. The members of the union make savings as in any bank, except that the credit union will take as little as 25 cents. Because of the conveniences of deposit, the bank's treasurer being one of the fellow workers, the member will put in a quarter or a dollar where they wouldn't walk inside the doors of a financial institution unless they had saved \$5 or more, and resisted the temptation to spend it on the way.

Loans are the principal business—loans to pay doctor's bills, for educa-

tional purposes, clothing, taxes, etc. Loans are restricted to members and can be up to \$50 without any security. Above that there must be collateral, co-signers, wage assignments or other forms of acceptable security.

This money is loaned at a maximum of one per cent a month interest on unpaid balances. It may be considerably lower if the credit union has established reserves. Over a year's operation a well managed credit union will make considerable money.

The profits are distributed at the end of the year as dividends on the basis of the amount of savings from month to month. But in no case does the government permit more than a six per cent dividend. Profits above that amount must be plowed back as a reserve so that the rate of interest can be safely lower.

Credit union officials see the "poor man's bank" of the future as the workingman's cushion during depression. There were a number of instances in the last depression, where a factory was forced to close but the credit union of its employees continued to function, taking small savings and making large loans. By J. Frank Beaman. *Modern Finance*, May 1, 1936, p. 200:4.

### Inflation

After describing past inflations in this country and abroad the author makes these observations: The histories of recent European inflations indicate that serious price inflations develop when business activity increases toward prosperity in countries that have recently greatly expanded the volume of their non-redeemable paper money, and that these price inflations grow rapidly to dangerous proportions if the countries continue to operate with badly unbalanced national budgets.

The borrowing processes which our government has followed during the depression have been of a type which increases the volume of money. There are many similarities between this procedure and the methods followed by Germany, France, and Italy in their inflationary periods.

Five requisites for serious inflation in this country appear to include a business boom, an actively rising stock market, a period of bank credit expansion, the stopping of gold exports, and continuing national budget deficits.

Finally the author points out that there are no effective hedges against inflation

and that inflation of the kind discussed does not appear to be a probable development for 1936, 1937, or 1938. By Leonard P. Ayres. *The Cleveland Trust Company*, 1936. 36 pages.

### Enforced Gambling

Today we have to be gamblers with our investments even though we wish to be conservative. This situation did not exist a generation ago; what has brought it about and what are likely to be its effects? The forces which are the cause of our compulsory gambling may be divided into three groups: those resulting from government action, those springing from public opinion and advice, and those originating in new methods of private financing.

To government action, we can attribute a feeling of great uncertainty in the life of the citizen: our generation has witnessed repudiation of solemn contracts on a scale never known before in the modern world. In our case, there have been the colossal spending and piling up of deficits by the New Deal, and tax laws which interfere with free play of judgment in making investments.

Largely because of the situation created

by governments, the idea is firmly in the public mind, either for fear of inflation or something else, that the really careful investor should have a varying proportion of common stocks. This force of public opinion and advice is certainly a potent one in making us into speculators.

The third cause, new methods of private financing, makes for uncertainty in the former super-conservative investments. Now, practically every bond that is issued is callable on any interest day on thirty to sixty days' notice. In other words, if the money market should be favorable for refunding, one's whole estate might be called within a few months. The investor no longer can have a safe, long-term investment, but his estate becomes a shifting quick-sand, quivering at every drop in money rates.

What are the psychological and social implications of this change? The man who feels safe in building for the future under the institutions of his country is not one to try wild experiments with those institutions. But let it soak into him thoroughly that neither he nor his wife nor children are any longer safe, and you change the man. Recklessness in one part of one's life and outlook easily spreads into recklessness in other parts.

What is to be done about it? For the altering of conditions, we have to go back to the government. If, either under Mr. Roosevelt or another, we get back to balanced budgets, sane finance, and sensible tax laws, then ordinary people who are trying to make a living and provide for their future and that of their dependents may again return to conservative investments and not worry too much about the market with every evening's paper. By James Truslow Adams. *Scribner's*, May, 1936, p. 273-4.

### Expenses

To make a profit, it is necessary to control expenses—to keep expenses smaller than the margin (or gross profit) earned by a business. Margin is determined by

the relation of selling prices to cost of merchandise sold. Since competition fixes selling prices on most articles of merchandise, it is important for a retailer to know typical expense percentages of competing stores.

This book presents figures on the following retail businesses: auto tires and accessories, barber shops, beauty shops, builders' supply, department stores (Pacific Coast and U. S.), drug stores, dyers and cleaners, electrical stores, florists, food stores (independent), furniture stores, general stores, gift shops, grocery stores (chain and independent), hardware stores, jewelry stores, laundries, meat markets, men's apparel, metropolitan community stores, restaurants, shoe stores, specialty stores, stationery and office equipment stores, super-markets, super-service stations, and variety chains; and on these wholesale businesses: automotive jobbers, wholesale druggists, wholesale grocers, and wholesale jewelers.

There is also a table showing "How Much a Salesperson Should Sell." *Merchants Service, The National Cash Register Company*, 43 pages.

### Hattie Hicks Sweets Company

This paper is based upon an actual case study made by the authors in a small confectionery plant in the metropolitan Boston area. It is a description of the development of a cost system for a small and relatively simple industrial plant. It must be emphasized that the plant investigated was in no sense an ideal one. Very few plants could possibly be placed in that category. The more common and more important plants (numerically) are the small and medium-sized plants following only the average of practice in all phases of management.

The operators of these enterprises cannot afford the refinements of management procedures and techniques, yet are fully as dependent upon a real control of the situation. Cost procedures designed for them must be simple and inexpensive to operate but



nevertheless complete enough to provide a continuous flow of the essential accounting facts. A brief description of the company's products, manufacturing facilities, processes and present procedures are given, which

should indicate the control problems faced by this typical average enterprise. By Clinton W. Bennett and Wyman P. Fiske. *N. A. C. A. Bulletin*, May 15, 1936, Section I, p. 1065:29.

## INSURANCE\*

### A U. & O. Question

The question has arisen as to the protection granted by use and occupancy policy under the following circumstances:

Fire broke out and gutted a large building immediately adjoining a store which had made preparations for an anniversary sale. The fire raged all day, necessitating the blocking of the street. Thereafter, the damaged building was in such condition that the street was roped off for one week.

The store that had arranged for the anniversary sale was out of business through lack of customers for the entire period during which the sale had previously been advertised. The building occupied by this store was not damaged; neither was the stock in any manner affected.

A search of legal decisions has failed to find a case where use and occupancy insurance policy was held to cover under circumstances similar to these stated. *Insurance Decisions*, April, 1936, p. 390:1.

Editor's Note: It is assumed that the ordinary use and occupancy policy is referred to. There is no reason why the buyer should not obtain an endorsement to cover this type of consequential loss.

### Fire Prevention in Factories

Definite steps can be taken to lessen the chances of a disastrous fire, and progressive and successful factory officials find that time and effort expended in fire prevention are never wasted.

The fact that a building is fire-resistive does not mean that fire prevention measures can be neglected. Fires in factories

are due to a wide variety of causes and while each plant may have special hazards which are peculiar to its own processes, a large percentage of factory fires are due to common causes which are easily preventable. Obviously, the most important feature for the prevention of fire in factories is good "housekeeping."

A wise superintendent safeguards every possible fire cause. He maintains his building and fire detecting and extinguishing equipment in good operating condition. He educates his employees in fire prevention and fire fighting.

Metal cans should be provided for combustible waste, and the contents disposed of daily. Stairway and elevator shafts should be equipped with fire doors. Floor areas should be sub-divided by fire walls with fire doors on openings.

Workmen should be instructed how to use extinguishing equipment and to keep it in readiness for use, and how to do salvage work. *The Weekly Underwriter*, May 2, 1936, p. 916:1.

### One Broker and One Insuring Company

Any student of economics will admit that business transactions of considerable volume can be handled at a proportionately lower cost than a multitude of small transactions. It is strange, therefore, that so many people in considering the purchase of insurance should have the mistaken notion that insurance can be economically purchased when policies are secured through several brokers and from as many insurance companies.

\* Insurance abstracts are contributed by P. D. BETTELEY, Assistant Treasurer, Graton & Knight Company.



During the past few years companies have advertised quite generally that many public liability risks might be combined under what is termed a "blanket" public liability policy. There are one or two insurance companies which now specialize in the combination of these risks in a single policy.

It is naturally much easier for the insurance buyer to keep track of his risks when they are covered in a single policy.

Any insurance company will be more liberal in its continuation of protection on an unfavorable risk if it feels that the assured has fully done his part by placing his entire risk with that company.

Similar benefits are to be derived from the selection of a single broker; examine the character of the work that the broker has done and is able to do, inspect his facilities, and interview other clients of the broker to determine the results the broker has been able to achieve. *The Insurance Post*, January, 1936, p. 9:2.

#### **Many Business Concerns Are Underinsured**

Credit men are beginning to realize that three hundred million annual credit losses could be materially reduced if the business men involved had adequate insurance.

An insurance survey made of the hazards of a sizable manufacturing company with \$128,000 insurable value on contents disclosed the fact that they carried only \$25,000 of fire insurance.

So important is the effect of insurance upon credit that the National Association of Credit Men has a special committee on fire insurance, whose important duty it is, among others, to devise ways and means of inducing debtors to carry adequate insurance as a protection against fire losses. Numerous instances have occurred where a fire has destroyed the entire stock and the creditors were left practically nothing, and the debtor himself absolutely nothing with which to begin business anew and recuperate his losses.

It was realized by this Association some-

time ago that insurance was the foundation of credit, and that the credit risk was no safer than the insurance protection, in the event of disaster. *The Weekly Underwriter*, May 2, 1936, p. 897:2.

#### **Retrospective Rating Plan For Workmen's Compensation Risks**

Massachusetts has approved the retrospective rating plan for workmen's compensation risks.

The plan will be available to any risk which for the latest year of the experience period produces a premium of not less than \$5,000.

The retrospective rating procedure consists of the following steps:

(a) Determination of the standard premium for the risk based upon audited payrolls for the policy period extended at approved experience rates.

(b) Determination of the basic premium for the risk. This will be done by means of a table of values which will show the ratio of the basic premium to the standard premium for the risk.

(c) Determination of actual incurred losses for the risk for the policy period.

(d) Conversion of actual incurred losses to a premium basis by means of factors which will be specified in the plan.

(e) The converted losses will then be added to the basic premium as previously determined.

(f) The result thus produced will be the retrospective rating premium subject, however, to minimum and maximum premiums which are determined by reference to a table of values accompanying the plan. *The Weekly Underwriter*, April 11, 1936, p. 746:2.

#### **Charco Charts, 1936, Casualty Edition**

These charts visualize graphically the operations of the leading casualty companies during the period 1926 to 1935, which covers the best and worst years the business has known. The rapidity of their recovery and their average showing is reflected

on each company side by side with the average chart of the leading ten.

The financial statements are shown in the simplest form with percentage of distribution of assets and liabilities, side by side, with the percentages of the leading ten companies.

## OFFICE MANAGEMENT

### Short-Cuts to Shipping Savings

Some of the short-cuts to shipping savings that won \$5 when submitted to *Shipping Management* are:

A set of pigeon holes which enables a Kansas firm to sort its first-class mail so that five letters going to the same destination in one big envelope can be sent for the price of three mailed separately. Five hundred dollars a month is saved thereby.

A hold-order board, 48 by 28 inches, carries a dozen clips in two rows of six each, in which orders for material not in stock are held. A card with the number of the article for which the order is being held is placed in a card holder directly under the order. A glance tells what stock is needed, and the board also serves as a route board, as the card holds the route or truck number.

A comparison sheet which shows at a glance the cheapest way to route a shipment. A copy of the sheet is reproduced with the article.

By placing the zone of the city after each store listed in the chain store guides, a greeting card manufacturer's routing clerk cut parcel post shipping time and reduced errors. *Shipping Management*, April, 1936, p. 30:2.

### At the Crossroads of Business Life

Did it ever occur to you that the position of the switchboard operator and receptionist is the most confidential one in your office? You may protest that truly important matters are not discussed coherently over the telephone. Think again of the possibilities telephone conversations

The charts on 1935 operations and pages 162 to 164 show the details of underwriting, investment and miscellaneous profit or loss and the uses made of gains during the year. *Reviewers Charts Corporation*, New York, 1936. 164 pages.

in your office would offer a designing operator. Confidential price discussions; company policy concerning either employees or competitors; any contemplated move possible in the realm of your business world. The suggestion is wry, but the possibility is based on the fact that it can be and has been done.

Does your operator reflect your personal solicitous consideration of your friends and customers? Is this filter process through the switchboard operator rendering you the utmost in presenting a susceptible sales prospect?

If a buyer calls by phone will she be curt, or will she by gross negligence mishandle the call? If the party the buyer calls is busy, will she let him dangle unconsolated for so long that he will redial? Will she carelessly connect him with the wrong department? Will an awkward manipulation result in a cut-off?

By telephone there is only a voice to soothe the irritated nerves, with the possibility of inflection to misconstrue a good intention. When it becomes necessary to delay the completion of a call, qualities of alertness and tact are called into play in a more concentrated fashion. If the operator is not sure that the person called is willing to talk and his line is busy, "he has stepped out of the office, may I call you back?" will gracefully acknowledge nothing and allow for what otherwise might result in further complications. It is unforgivable for an operator carelessly to permit a call to reach anyone in an office without warning him of a message delivered about a first person inquired for.

Quick thinking and tactful action on the part of an operator can almost always save an awkward situation. By Margaret R. Ruth. *The Iron Age*, May 28, 1936, p. 48:3.

### White Collar Jobs

What is happening in white collar re-employment?

While it is not typical of the country, New York City is important because of its large population. A sampling of this market is afforded by the first quarter survey just made by the National Employment Exchange.

An encouraging fact is that 86 per cent of hiring represents anticipated steady jobs; from the fall of 1932 to the spring of 1933 the range was between 60 per cent and 75 per cent, the rest being for casual employment.

Last year saw much of the cream skimmed from the reservoir of "worker talent" in the metropolitan district. The chief demand is for workers who are between 20 and 30 years and have experience. The supply of such workers is running short.

The report points out that the depression prevented youngsters from accumulating marketable business experience. Now employers are having to adjust their expectations. They must take seasoned workers over 30, or if unwilling to do that, take unseasoned workers. In the latter case those under 20 are usually favored.

The report registers to some extent the upturn in office employment for the New York district but shows that conditions are still serious. At the worst of the depression (1932) an average of 72.8 men and 63.4 women applied for every job. Current figures are, respectively, 29.8 and 13. In January, 1929, only 2.9 men and 1.6 women applied for each opening.

The value of special training is emphasized. The report discloses that in many cases there is a limited supply or pronounced shortage in operatives of business machines. Bookkeeper-stenographers are in great demand and so are legal stenographers.

Statistical typists and foreign language correspondents have a fair chance of finding work. But it looks pretty bad for assistant bookkeepers, general clerks, collectors, assistant sales managers, salesmen, general stenographers, and others.

Generally, the ratio of applicants to job openings is comparable with the last half of 1930. *Business Week*, May 16, 1936, p. 18:2.

### Building a Manual of Executive Duties

When the office closes at night, nearly all of the rules, policies and standard practices walk out of the door—under the hats of the members of the department. The following morning they come strolling back in—perhaps! The moral is to have a manual of executive duties and standard practices, and this article tells you how to build one.

If the importance of teamwork from the standpoint of increasing sales can be made to run through the manual like a golden thread, the book will repay the time and effort it takes to develop it a thousand times over, for only when every employee considers himself a part of the sales department is it possible to develop a viewpoint which illuminates clerical drudgery by investing it with a purpose.

Whenever an employee poses a question on duties or policy, if he is made to write out the answer in a way which reflects company policy, a manual can be assembled from "spare moments" and a little organization work. A committee within the company, or an outside specialist can do the job, if a little more time or cash is available.

Some of the things which preparation of a manual and the resulting job analysis can accomplish are:

1. Complete yet concise and accurate description of the work done by each salaried employee.
2. Fixed relations between positions in one department and those in another.
3. Fixed relative value and significance of the several salaried positions in a department.
4. Facilitation of the recog-



nition of merit, and emphasis of the policy of promotion. 5. Positions grouped according to their value to the company as a whole. 6. Determined normal, minimum and maximum salary rates for each of these groups. 7. Elimination of salaries that are outside the limit for the work done. 8. Basis of comparison for checking salaries with those paid by outside companies for similar work. *American Business*, May, 1936, p. 36:4.

#### **In Business Management Does It Pay to Try to Save the Unfit?**

Quoting Dr. E. A. Morgan of Antioch College, the author says: "Modern industry is too far flung, too complex, to rely successfully on vigilant inspection." The ideal business must have the kind of employee who can be trusted.

Have we any right to spend the stockholder's money in overly generous attempts to put unfit employees on their feet? Mr.

Norvell's answer to this question is this: "My experience in many years' close contact with people is that fundamentally their characters never change. When an employee is a misfit, not because he cannot handle his job properly, but because he is lazy, a liar, a troublemaker or a thief, I would not recommend as a business proposition that the money of the company's stockholders be devoted to the social effort of switching him around or trying to reform him." Misfits among the salesmen, at the switchboard, and in the reception room are especially potent troublemakers.

The author finds that the men and women who make the best employees start their training in homes where there is developed a sense of responsible sincerity. His suggestion for having a smooth-running, efficient organization is to select carefully, train diligently, and eliminate wisely. By Saunders Norvell. *Sales Management*, May 15, 1936, p. 740:4.

## **PRODUCTION MANAGEMENT**

**Industrial Economics: Labor and Capital, Legislation, Wage Theory, Immigration**

### **How Technological Changes Affect Employees**

Certain economists and psychologists have become much disturbed about the possible effect of technological changes in dulling the minds and disturbing the emotional adjustment of employees by forcing them into tasks involving highly specialized repetitive activity.

The results of systematic, scientific study in this field bring out that machine work, intense work, repetitive work at an imposed speed and rhythm can be challenging and absorbing, to some workers at least. As a matter of fact, there are many who find routine work desirable, who like automatized tasks that leave the mind free for other pleasurable activities. Perhaps the most encouraging aspect of these studies is their failure to confirm the point of view that the human mind is dulled, emotional maladjustment intensified, and broader social participation hindered by repetitive work.

Among the accusations leveled at modern industry is that it has decreased the demand for skill in work. Today there is a tremendous demand for both technical skill and technical knowledge in the construction, maintenance, re-



pair, and adjustment of the marvellously intricate and deft machines that perform much of the handwork formerly done by man. Studies show that skill—more particularly manual skill—still has an extremely important place in modern industry. The outstanding demand in many modern plants is that for flexibility and mobility on the part of its workers. From the viewpoint of the vocational school and of industry, this means, of course, that it is necessary to conduct training so as to develop in the individual a set of fundamental skills that can be used on many jobs, thereby providing for quick adaptation to rapidly changing forms of work.

One important effect on the employee is associated with the influence of technological change in increasing unemployment. In general, the results of study support the opinion that the grave consequences of unemployment reach beyond material discomfort, beyond the disintegration of skill and health, to undermine a man's attitude toward his fellows and toward social controls. By Morris S. Viteles. *Mechanical Engineering*, May, 1936, p. 302:2.

#### **The Acquisition of Skill: An Analysis of Learning Curves**

What are the effects of practice upon individual differences in efficiency? Ought it to be assumed that regular practice produces equality of performance on the part of all or most workers? Is there any standard by which it can be judged whether training is producing what may be called a "normal" result? How can training be arranged to produce the best results in the shortest time and with the least expenditure of effort?

This report discusses some theoretical aspects of these questions. The author attempts to survey and coordinate recent experimental work on one particular field; namely, the study of the development of skill in individuals. The report is addressed largely to investigators in the field which it covers, and does not profess to provide practical answers to the questions mentioned: its aims are more to show the requirements as to methods of research, and where possible the results to which these methods may lead.

The investigation is limited to various objectively determined characteristics of the "learning curve"; those due to inclination and incentive are not included, although it is well-known, of course, that the

rate of learning is greatly influenced by the will to learn and by the inducements offered. By J. M. Blackburn. Medical Research Council, Industrial Health Research Board, *Report No. 73*, 1936. 92 pages.

#### **International Labor Conference of June, 1936**

The establishment by international agreement of a 40-hour maximum work week for certain major industries will be discussed at the next conference of the International Labor Organization in June, 1936. The industries scheduled for consideration are coal mining, iron and steel, textiles, public works, and building construction. An explanation of the various points at issue and their significance to the United States is given in the article. By William Gorham Rice, Jr., and W. Ellison Chalmers. *Monthly Labor Review*, April, 1936, p. 953:16.

#### **The Doctor's Point of View V—Piece-Work and Time-Work**

The author is medical officer in a factory employing between 2,000 and 3,000 girl workers. The payment system makes it difficult for certain piece-workers, as they grow older, to earn the equivalent of the

time-rate. There appears to be a correlation between low piece-rate earnings and excessive sickness, which the author suggests may be due mainly to psychogenic illness. He suggests that piece-rates should be supplemented by a bonus for age, and that more attention should be paid to the question of a worker's suitability for piece- or time-work. He also comments on the psychological damage caused by overstrict supervision on monotonous tasks. By T. O. Garland. *The Human Factor*, May, 1936, p. 183:7.

#### **Collective Agreements in the Brewery Industry, 1936**

The 40-hour, 5-day week predominates in about 400 brewery companies covered by the 82 collective agreements analyzed in this article. Most of the agreements prohibit Sunday work, except in case of pressing emergency, and provide for not less than time and one-half for holiday and overtime work. In all companies covered by these agreements only union men are employed and extra help for the busy season is obtained in most cases under the "permit-card system." The largest number of agreements provide for minimum weekly wages ranging from \$32 to \$36 in the brewery department, \$24 to \$28 in the bottling department, \$28 to \$32 in the delivery department, and \$32 to \$36 in the mechanical department. *Monthly Labor Review*, April, 1936, p. 1012:12.

#### **Union Scales of Wages and Hours in Selected Trades, May 15, 1934, and May 15, 1935**

Approximately 29 per cent of the union members in 6 trade groups in 70 cities received increases in wage rates and only 2 per cent sustained wage-rate decreases as between 1934 and 1935. There was a slight decrease in average hours in these trade groups. The average number of hours in 1935 was around 40 in the building and printing trades, 43 in the bakery trades, and 48 among truck drivers covered by union agreements. Longshoremen on

the Pacific coast changed from a 48- to a basic 30-hour week; no change in hours took place among longshoremen at the other ports between 1934 and 1935. This article shows union scales of wages and working hours for the groups mentioned, and for street-railway employees, in 1934 and 1935. *Monthly Labor Review*, April, 1936, p. 395:25.

#### **Industrial Instability and Unemployment Insurance**

The editor of *Personnel Journal* reproduces extracts from the economic brief, prepared under direction of Meredith B. Givens of the New York State Department of Labor, which aided New York State in winning its case on the constitutionality of the New York State Unemployment Insurance Act. He also gives quotations from the majority opinion of the New York State Court of Appeals upholding the constitutionality of the Act. In connection with these two quotations, he makes this note:

"In 1908 Brandeis won a favorable decision, on Oregon's ten-hour law for women, by crushing legalistic arguments against social legislation under a mass of sociological and economic data quoted from the studies of experts from all parts of the world. The Supreme Court took 'judicial notice' of the expert's opinions, and decided in favor of the legislation as 'reasonable.'"

"In their recent case New York State appears . . . to have successfully applied the 'Brandeis Technique.'" *Personnel Journal*, May, 1936, p. 1:2.

#### **Human Problems Created by Labor-Saving Machinery**

We have entered a new stage in our attack upon the human problems presented by labor-saving machinery because we know a great deal more about the nature of these problems than even a half dozen years ago. It is not the machine that causes human misery but our failure to absorb the machine, and the power that drives it, into our social and economic

processes. We are in an age of technology but we have failed to revise our cultural patterns to embrace technology. The fault lies largely in our technoculture; and the unemployment that results from labor-saving devices is technocultural unemployment.

There is evidence of improvement in our American technoculture; for example, the Social Security Act, the Guffey Coal Act, the National Labor Relations Act, the Security Exchange Commission, the trade pact with Canada, etc.

Greater stability in production and employment and a smoother flow of goods and services from producer to consumer are environmental factors which appear to be essential for the creation within the plant of satisfied and willing groups of workers. This not only permits but requires union organization of the workers. For in a profit-seeking society, we have to remind ourselves that the struggle over the

relatively residual portion of the income—the struggle over the profits and real wages—will continue to force workers, despite excellent adjustments to their work as producers, to think of their status as consumers.

Technological obsolescence and change occur, causing breaks in the continuity of production and employment. If the organization is kept attuned to change, and the surrounding society is responsive, if our shock absorbers in and out of the factory are as adequate as our engines—human problems will be well-nigh solved. Even if we provide for smoother running of industry amidst technological change, the dynamic nature of our society requires provision for continuity of income, both psychic and material, when the chain of smooth procedure breaks. Social insurance is imperative. By Elizabeth Faulkner Baker. *Mechanical Engineering*, May, 1936, p. 305:2.

### **Training and Education: Schools, Libraries, Employee Publications**

#### **The Place of Skill in Industry**

"Skill is dexterity, plus knowledge, which can adapt itself to changing situations and is capable of improvement." The problems in developing skill in industry concern: recognizing skill, recording skill, transferring skill from man to man and from man to machine, developing skill, and using skill.

Industry is attempting to recognize skill through job analyses, job classifications, and studies of earnings in their relationship to kinds of work done and quantity and quality of output. The relationship between skill and specialization is being investigated by economists and sociologists. The more technical classifications of skill can be simplified into skill in handling materials, machines, money, memoranda (paper work), and men.

Among the available ways to record skill are the film, preferably the micromotion film, and the cyclegraph. Recording skill makes it available for teaching but it does not necessarily keep it in active use.

Skill may be transferred to men or to machines. Adequate records can provide for visual education, oral education, and even motor education. They can also indicate where attempts at transfer to machines should be abandoned, either because the activity is not transferable or because the human element will profit if the activity be not transferred. Transfer of skill from man to man should result in its increase unless those who transfer it abandon its



use as soon as they have handed it on, or those who have received it fail to use it. A real danger is not that men will transfer their skill to machines, but that they will believe that this is possible and will stop developing their skill when they have handed over the repetitive work that requires no adaptability and creative activity to the machine. The number of people possessing skill, and the product of the skill can be increased as it is passed from man to man and from man to machine.

Industry is weakest in its use of skill. Proper use demands the elimination of unnecessary fatigue and provision for recovery from that which is necessary. Fatigue not only makes the worker less capable of doing skilled work but affects the product appreciably. It increases safety hazards. Right work methods, performed at the appropriate speed, lead to safety of the worker and uniformity of the product. Most serious of all is the failure to consider the influence of inadequate motivation, the lack of the incentive.

Engineers have feared that the events of the last years, such as failure to develop skilled workers, unemployment, and code restrictions, would seriously affect skill. There is reason to believe that they have. Creating a supply of skill to replace what has been lost or destroyed means not only re-establishing the means of recording, transferring, developing and using skill, but also finding new means. A fundamental belief in the importance of skill must be established not only in industry but everywhere. Schools and colleges must join with industry in finding and fostering aptitudes. The rigid training of the engineer should be applied to interpretation of the facts. By Lillian M. Gilbreth. *Mechanical Engineering*, May, 1936, p. 303:2.

#### Employee Manuals—A Training Aid

Normal business in winter at the Waldorf-Astoria Hotel in New York City requires close to 1,800 employees, each a contributing unit in an organization whose purpose is to maintain the highest possible standard of service to all patrons, and, beyond that, to add personal attention to the desires and preferences of each individual. To render such service means that each employee must be well instructed—must know clearly his duties and responsibilities.

I dare say that there is not an executive who has not learned that when matters are left to oral arrangement between employees, trouble ensues. A statement of a plan or method on paper is admittedly not a guarantee of execution according to the plan, but it is unquestionably an important step in that direction.

In preparing our manual we gathered

that part of the staff which had a good understanding of Waldorf-Astoria traditions. We wrote a definition of policy, the general management and organization, the operating management and organization, departmental operating manuals. Two or more staff meetings were held each week. At these meetings we functioned as architects, but we planned for instruction rather than construction. The result is that we have a book, in typewritten form, serving as a control manual for all departments of the hotel. From this information we drew up separate mimeographed manuals covering each staff job. These manuals are written in a personalized style, simple and understandable to the reader. All new employees are given a copy of the manual of the department in which they work. The manuals that we have had printed are uniform in appearance, each being  $4\frac{1}{2}$  by  $6\frac{1}{2}$



inches, making it convenient for the employee to carry his book in his pocket for quick reference. By W. I. Hamilton, Personnel Director, Hotel Waldorf-Astoria. *Executives Service Bulletin*, May, 1936, p. 3:3.

### **Benefit Systems and Incentives: *Bonus Plans, Vacations***

#### **What Employers Are Doing for Employees**

Information concerning their personal programs was solicited from companies in all the fields of business activity in connection with this Conference Board Survey. Replies were received from 2,452 establishments which employ 4,502,608 persons. Made in the light of a similar study made in 1927, the present survey presents some interesting comparisons as to the trends of personnel activities.

Membership in organized labor unions and in plans of employee representation has substantially increased. The survey showed 30.6 per cent of the companies reporting have such plans, compared with only 5 per cent in 1927.

Relatively few collective bargaining plans have been abandoned.

Under the heading of economic security for employees, group life insurance still occupies a commanding position. Policies of this character are in force in 58.7 per cent of the companies covered in the survey. Sickness and accident insurance is reported by 30.7 per cent of the companies, and mutual benefit associations are operating in 28.2 per cent. Formal pension plans are in effect in 10.3 per cent of the companies, but these companies employ 44.3 per cent of the total employees covered. Assistance during unemployment is provided by 317 companies in the form of dismissal compensation and by 266 companies through relief funds. Thirty-nine companies have worked out plans which enable them to guarantee employment. Discontinuations of plans of this character have been relatively few.

Incentive wage payment methods are widely used. Piece work is in force in 46.7 per cent and premium or bonus systems in 27.9 per cent of reporting companies. Discontinuations have been few.

Special bonuses on the other hand have suffered heavily. More discontinued attendance bonus plans are reported than active plans. Quality and long service bonuses fared better, but active plans are reported by only 6.4 per cent and 7.3 per cent of the companies, respectively.

Profit sharing is reported by 4.7 per cent of cooperating companies. Nearly half as many have been discontinued as are in force. Patent agreements cover 42.1 per cent of the employees in the study. Incentives for executives are operating in 14.6 per cent and foremen's incentives in 13.8 per cent of the companies.

A rather surprising decline in the use of suggestion systems is indicated. Active plans number 566, while 159, or 28.1 per cent, have been discontinued. Since these plans involve no expense, the decline is not quite understandable.

In the thrift and investment group of activities, savings plans appear to be the most popular, being reported by 387 companies. Credit unions for stimulating thrift are operating in 278 of the companies and only 13 discontinued plans of this character are reported.

Promotion of home ownership has received a setback as a result of conditions of recent years.

In the case of stock purchase plans, the mortality is even higher. This activity, since 1929, instead of being a source of benefit to employees has turned out to be a source of loss. Even where loss to employees was avoided or held within small limits, the demonstration of the great risk involved induced many companies to decide that a more conservative type of thrift plan would probably work out better for all concerned.

Stock purchase plans are reported as in effect by 166 companies. It is probable, however, that many of these companies are no longer offering stock for sale to employees, but since employees are still making payments on earlier offerings, the plans are still regarded as in effect. Such plans have been discontinued by 209 companies.

Facilities of some kind for training employees are reported by 848 companies or 34.6 per cent of the total. Apprentice training, carried on in 639 companies, is the most common form, particularly in manufacturing industries.

That business management has not slackened its efforts to provide working conditions in accord with the social standards of today, is evident from the data. In matters of education, employee physical welfare, medical work, safety, employee privileges, plant conveniences, recreation, the trend has been toward a continually higher standard.

Hand in hand with enlargement in the scope of personnel programs by the addition of activities intended to improve employment conditions has gone progress in employment technique and in the administration of working forces. Increasingly infrequent are the companies in which foremen hire and fire at will and are a law unto themselves within their departments. Protection of employees and of company interests has dictated the standardization of employment procedure and the application of uniform standards and of employment procedure and the application of uniform regulations.

While the 5-day week was exceptional five years ago, it has now become quite general. Although frequently applying to both clerical and wage earners, it may apply in a particular company to only one of these groups. Of the two the wage earner group is more likely to be on the 5-day schedule. Of the companies in this study, 1,404 or 57.3 per cent, report a 5-day week for wage earners. These companies employ 2,767,357 workers. The short schedule is applied to clerical workers in 1,110 companies with 2,607,011 employees. Only 1 per cent of the companies that adopted a 5-day week have abandoned it.

The relatively recent pioneering work of comparatively few companies in simplifying, correcting, and standardizing job requirements and compensation differentials is leading to a growing recognition of the value of such work. In the present study, 434 companies report that they have made or are making job analysis studies, and 323 report studies of job specifications. In 315 companies there is a systematic promotion procedure. Systems for rating employees are in force in 363 companies. Salary classification, a more recent development in employment standardization technique, is reported by 345 companies.

Tests of one kind or another, given to candidates for employment or transfer in the effort to improve the calibre of the working force, are still relatively rare. Considerable controversy has arisen over the value of intelligence tests in particular. Seventy-four companies report the use of such tests and 12 companies have discontinued them. Tests of some kind are applied in 179 companies, the most frequently used being those for clerical workers. *National Industrial Conference Board Studies. Number 221, March, 1936. 70 pages.*

#### **Welfare of the Worker**

Labor and management in American industry have not always seen eye to eye, but the values and the objectives of the worker and his boss are not so divergent as they have sometimes seemed. The employee wants fair pay, reasonable hours, good working conditions, and a chance for advancement in his work; the employer wants efficiency, loyalty, and stability of personnel.

The increasing importance of employee welfare in the minds of business executives is indicated by the attention given to the subject in their annual and special reports to stockholders. Most important, and most hopeful of permanent benefits, is the fact that the thought, the skill, and the experience of employers and employees is being directed toward a matter of such lively concern to both parties.

A measure for judging the performance of an employee plan is to determine as far as possible what the representative individual employee wishes to get from it; and then to add a part of what the employee might have wished for, had he been blessed with just a little more sense.

The present trend is definitely away from

conspicuous and "paternalistic" activities which are easily criticized to plans of more practical value to the employee. Savings and pension plans, cooperative loan funds and credit unions, sickness, accident and health insurance benefits, provisions for profit-sharing—these are common among recently instituted welfare programs. Stock plans are much less common than before the depression; yet the basic soundness of the idea of enlisting the worker's interest in the profits of his company has led to a number of attempts to find a satisfactory substitute for outright ownership of stock. Some of these and other employee welfare plans in such organizations as General Foods, General Motors, General Electric, and International Business Machines are described in the article.

An interesting trend in planned industrial relations is the increasing amount of attention being given to the selection of personnel. Nearly all the larger companies are making thorough analyses of jobs, and more and more the personnel directors are drawing on the knowledge and techniques of psychologists and vocational counselors. High turnover figures in the future will be taken as reflections on the management



policies of the companies involved, not merely as symptoms of changing times. The effect of this in time should be to reduce the importance of a troublesome industrial problem, that of finding jobs for the older workers.

Another significant trend is the realization of the importance of the foremen and

other immediate bosses of the workers. Only good can come of restoring to the foreman a sense of responsibility in his relations with industrial subordinates, and, ultimately, of choosing him with an eye to his human as well as his technical qualities. By David P. Page. *Review of Reviews*, June, 1936, p. 43:4.

## MARKETING MANAGEMENT

### Why Manufacturers Use Public Warehouses to Avoid Consigning Stocks

When a manufacturer sells on consignment he ships goods to the consignee to be charged to him and paid for, if he sells them. Because of numerous risks and evils arising out of this method of selling, most manufacturers have sought to limit its use. A method to avoid consignment selling is to place spot stocks of goods in public warehouses, from which deliveries may be made to customers on either a c.o.d. or an accredited list basis.

When the system combining the use of spot stocks with accredited lists is used to the fullest extent, the following advantages accrue to the manufacturer: 1. His market is always supplied with goods which have been placed at their approximate sales destination before the sale is made to the retailer or wholesaler. 2. Dealers always have goods on hand, or easily obtainable. 3. There is no need to consign stocks to dealers with consequent risks of loss to the manufacturer. 4. Large open accounts are avoided as dealers obtain the goods when they want them for immediate resale. 5. The manufacturer has definite and absolute control over his sales.

The author also lists the reasons against consigning. By Dr. John H. Frederick. *Shipping Management*, April, 1936, p. 21:4.

### Operating Expenses of 110 Selected Food Stores

The progressive merchant wants to compare his operating expenses with merchants of his own class. More than that, he

wishes to compare his operating performance, item for item, with that of one or more successful merchants doing business under conditions similar to his own.

*The Progressive Grocer* has made a detailed study of 110 selected food stores. The stores selected are typical of good performance under average conditions. The stores are widely distributed geographically; they include country stores and city stores, large stores and small ones. In addition the stores are segregated as to type. The expense factors of the cash-and-carry store differ from those of the service store, and each differs from the market or the general store.

The study of each group (super-markets, combination stores, grocery stores, and general stores) contains the detailed operating expenses of a number of selected or master merchants—all merchants who made a profit in 1934, a depression year. The expense factors for each of the 110 merchants are given in detail as well as the average of the stores in each group. *The Progressive Grocer*, 1935. 44 pages.

### Broadcasting Advertising Trends in 1935

In this article the author points out that trends have been of fundamental importance in broadcast advertising. Total volume has continued to grow rapidly and at a more sustained rate than that experienced by any other advertising medium. Regional network and national non-network volume grew most rapidly in 1935, indicating a more diversified use of the medium. The rise in 100-watt station volume at a rate greater than experienced by any other



portion of the medium is indicative of a broadening economic base. The trend toward station live talent programs on the part of national advertisers and to transcriptions on the part of local advertisers indicates fundamental developments in sponsor program policies and also connotes generally improved program service by stations.

Structural trends have been of like importance. A new network, the Mutual Broadcasting System, has risen to prominence. Transcription libraries have grown to a point where they are used by more than 300 stations. The first steps have been taken toward the formation of a co-

operative bureau of radio research by advertisers, broadcasters and agencies. Program trends have been of interest especially in the broadcasting of news. At present 320 stations are broadcasting news made available by various national services. A most important trend in the trade practice field has been the tendency toward more careful scrutiny of advertising accounts and copy by stations and networks. The development of a stipulation procedure for broadcasting stations (similar to the publication procedure) by the Federal Trade Commission also has been of interest. By Herman S. Hettinger. *The National Marketing Review*, Spring 1936, p. 301:15.

## Salesmanship

### Selling the Advertising to the Distributor

Portfolios featuring advertising campaigns and dealer helps play a prominent part in the sales efforts of consumer goods manufacturers selling through established wholesale and retail channels, because in this field it is realized that distribution forces know the value of advertising in building buyer acceptance. In many instances a new line is taken on by a dealer and pushed wholly on the strength of the promotional campaign outlined in these portfolio presentations. *Industrial Marketing*, March, 1936, p. 13:2.

### Sales Manual Present at Every Call

If the sales manual is meant to become part of the sales presentation, the important thing for the sales manager to accomplish is to see to it that the manual is always used. Salesmen are frequently rugged individualists, with ideas of their own which they prefer to plans that are provided for them. Consequently, unless they are first of all persuaded to use the manual as it was intended to be used, and then are constantly reminded of the need of conforming their selling to run coincidental with the company's desires, the manual will soon lose in efficiency.

The article describes how one company gets the sales manual used in every call. This company has succeeded in imparting to its salesmen the advisability of selling a merchandising idea to customers rather than the merchandise itself. Beyond this, it realizes the need of reiterating constantly to the men that it is the idea that should be sold—that this may be accomplished through the selling tool provided in the sales manual itself. By M. L. Harter. *Printers' Ink Monthly*, May, 1936, p. 19:3.

### If the Employee Owns the Car

Many court decisions show that the company is usually the goat when any kind of employee—even a free-lance salesman or collector—is involved in an automobile accident. Dangerous liabilities are assumed by the company when any type of employee uses his own car for business. The claimant is always more inclined to sue the company than an impecunious salesman, and the courts will stretch the letter of the law to protect the interests of an injured plaintiff.

There are three ways of off-setting the possibility of a successful and damaging suit for reimbursement: 1. Safety first measures should be insisted upon, and inspection should be regularized; 2. Reserves

should be set up to meet the costs of unavoidable accidents; 3. Adequate and proper insurance should be secured. The insurance coverage is available in three broad forms: A. Contingent Liability Insurance; B. Blanket Insurance; C. Individual Owner's Insurance. By George A. Strader. *American Business*, April, 1936, p. 30:5.

### A Challenge to the Sales Manager

Now that the phrase "profitless prosperity" is being bandied about because of

the increased costs of selling, taxes, etc., this author comes to the fore with the suggestion that selling costs be measured against actual sales results, item by item. At first it may look very discouraging, but if it is carried through with grim determination, the selling costs which are not bringing in their share of the profits can be discovered and eliminated. He describes the system used by several manufacturers in checking their selling costs. By H. A. Haring. *Advertising & Selling*, February 27, 1936, p. 64:3.

## Survey of Books for Executives

**Introduction to Federal Taxation.** By George T. Altman. Commerce Clearing House, Inc., New York, 1936. 166 pages. \$1.75.

More cases reach the United States Supreme Court on the subject of taxation than on any other subject, including even constitutional law. Most of these cases involve the federal income tax. The federal income tax is by far the principal source of federal income and has presented the most difficult questions for the decisions of the courts. It is the backbone of federal taxation.

This book is principally devoted to this important form of taxation. It is written with a view to study, rather than as a reference work. The method of presentation is that of development, so that a complete background and approach to every paragraph is found in the paragraphs that precede it. Emphasis is placed on the fundamental principles, and for that purpose, leading decisions are analyzed and coordinated. While the decisions of the Board of Tax Appeals and the lower courts are used infrequently, and are cited with caution, the effort is made to be exhaustive as to the decisions of the Supreme Court.

In its sixteen chapters the book dis-

cusses: Constitutional basis and limitations; classes of taxpayers and rate structures; accounting factors; gross income—in general; inventories and expense deductions; depreciation and depletion; bad debts, losses, contributions; recognition of gain or loss; capital gains and losses; reorganizations; corporate distributions; special problems of estates and trusts; personal holding companies—surplus accumulations—tax avoidance; administrative and general provisions; related taxes, etc. The book contains illustrative examples and explanatory calculations to bring out the application of the more complicated phases of federal tax laws.

**On Going Into Business.** By John C. Baker, William D. Kennedy, and Deane W. Malott. Whittlesey House, McGraw-Hill Book Company, New York, 1936. 233 pages. \$2.00.

The three authors of this book believe that much of the defeatism in the current public attitude toward unemployment is unwarranted; that employment under present conditions is difficult, but that a demand does exist for energetic men who carefully plan their job-seeking efforts. The volume tells how to secure a position commen-

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surate with one's abilities. It offers advice to the educated young man who is headed for a business career, discussing the practical and psychological problems met in finding employment and earning promotion.

Included in the discussion are: training; the approach to the job; progress; salary; and the best openings. Individual success in business, the book says in substance, is enthusiasm tempered by discretion and common sense.

John C. Baker is Associate Director of Research, Graduate School of Business Administration, Harvard University. William D. Kennedy, formerly Assistant Dean and Instructor in Business Reports at the Graduate School of Business Administration, is now Account Executive with the J. Walter Thompson Advertising Corporation. Deane W. Malott is Associate Professor of Business at the Graduate School of Business Administration.

**Give Me Liberty.** By Rose Wilder Lane. Longmans, Green & Co., New York, 1936. 62 pages. 50 cents.

The import of this brief volume may be found of value by the personnel officer who may be interested in directing the thinking of employees away from unsound and radical beliefs concerning liberty. The book would be useful either to be distributed to thoughtful employees, or as a background for approaching the problem of directing employee thinking on such matters.

Rose Wilder Lane was a communist in 1920. She was then firmly dedicated to the fulfillment of what she saw as the liberation of mankind from economic bondage. Then she went to Russia, to see what this dream was like come true. What she found was not freedom but a grinding tyranny. She lived and traveled throughout Europe, and everywhere she saw the negation of that concept of liberty to which she had been reared, everywhere she witnessed the exploitation, the regimentation, the degradation of the masses. It was then that she formulated in her mind a "credo" centering on the burning conviction that

freedom, with all the responsibilities that it implies, is still as much worth fighting for as it was in 1776. Her book is a succinct statement of the American creed.

**The Secretary's Book.** By S. J. Wanous. The Ronald Press, New York, 1936. 334 pages. \$2.50.

Instead of prescribing vague rules for problems met in business correspondence, this volume takes hold of typical actual details that are encountered in the preparation and handling of business messages. The book is eminently practical for persons who are actively engaged in the writing of letters, or manuscripts, minutes of meetings, telegrams, statistical tables, legal instruments, accounting and business reports.

The book has several chapters dealing with topics on business correspondence, and, in addition, includes discussions of methods of handling office callers, using the telephone, filing, caring for in-coming and out-going mail, and managing routine office duties. Also, the book provides a reference to frequently met mathematical problems, meanings of business terms, commonly confused words, spelling, grammar, punctuation, capitalization, etc. The volume is well indexed, and contains a number of sources for further reference.

**How to Make More Sales: Practical Ideas for Self-Help in Selling.** By Harry Simmons. Harper & Brothers, New York, 1936. 156 pages. \$2.00.

The *Printers' Ink* articles on which this book is based have enjoyed a reprint circulation of over 25,000. As Mr. C. B. Larabee points out in his foreword, Harry Simmons writes the kind of material that is practical and sensible and that sales managers like to give their men.

Marshal Foch's slogan was "Attaquez!" Harry Simmons' is "Call—call again—follow through—follow up." He writes well and from a rich and varied experience as salesman, sales manager, prospect and customer. His choice of chapter titles proves



that he is a good salesman: What is Salesmanship, What Makes a Good Salesman Better, How to Handle Your Job, How to Get More Prospects, How to Handle Your Prospects, How to Multiply Your Effectiveness, How to Handle the Chiseler, How to Build Your Sales Talk, How to Answer Sales Objections, How to Avoid Lost Sales, How to Dramatize Your Selling, How to Handle the Price Problem, How to Make More Sales, 100 Selling Maxims.

**Cotton and the AAA.** By Henry I. Richards. The Brookings Institution, Washington, D. C., 1936. 389 pages. \$2.50.

This is the sixth and last of the commodity studies which constitute the second phase of the Brookings Institution's study of the Agricultural Adjustment Act. The volume presents a comprehensive picture of the cotton program of the AAA, shows how it was carried out, how its various features were interrelated, and analyzes the results obtained. On the basis of this study, it appraises the potential gains and losses to be realized from such programs when applied to cotton, and considers the feasibility of such control.

The author finds that cotton acreage can be effectively controlled by a combination of benefit payments, individual farm contracts, and a cotton ginning tax such as was provided by the Bankhead Act. Another point is that thus far the income of cotton farmers has been relatively increased by the program. This increase has been relatively large during the past three seasons but will be offset to a considerable extent by losses in the future because of expansion in foreign production and decreased foreign consumption of American cotton caused by the program. Still another conclusion is that the government's loan policy was a serious mistake. It greatly handicapped the operation of the cotton control program because it led to larger rates of reduction than otherwise would have been attempted. Finally, the AAA has not been able to solve the basic problems involved in government control

over the production of cotton—determining where cotton should be grown and how much should be produced.

**A Survey of 299 National Advertising Budgets 1934-1935.** Association of National Advertisers, Inc., New York, 1936. 141 pages. \$10 to non-members.

In this volume consumer and industrial advertisers are classified into 25 product groups. Part I of the report presents a summary of the basis on which 1935 advertising budgets were determined and the number of companies revising their budgets during the year and their methods of doing so. It also shows the percentage of the total number of the reporting companies using each medium and the percentage of the total number of companies increasing or decreasing the relative proportion of the budget appropriated for each medium in 1935, as compared with 1934.

Part II presents information on the advertising budgets of 228 consumer goods advertisers, showing the relation of advertising expenditures to net sales for the two years covered by this survey as well as for 1933. It also shows the breakdown of the advertising budgets by industries, methods of determining the budgets, etc.

Part III presents information on 71 industrial advertising budgets similar to that for consumer advertisers in Part II.

In this report, advertising budgets are broken down under three general headings: (1) advertising media, (2) space production costs, and (3) administrative expenses of the advertising department. Each of these three general expenditures and the items under them are shown in relation to the total advertising appropriation.

Part IV presents additional miscellaneous information including the use of the term "sales promotion" by the reporting companies, the practice of charging for dealer helps and other advertising materials, export advertising budgets, and breakdowns of the budgets for outdoor advertising, direct mail, dealer helps and radio into the several divisions of those expenditures.